

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE CANNONSBURG WATER DISTRICT,)	
INC., NOTICE AND APPLICATION FOR)	CASE NO. 8369
RATE INCREASE)	

O R D E R

On October 19, 1981, the Cannonsburg Water District ("Cannonsburg") filed with the Commission an application requesting authority to increase its water rates in order to offset the increased operating costs it was experiencing. Cannonsburg stated that the requested increase was necessary in order to maintain the level of operations and service it provides to its customers.

The application filed by Cannonsburg was substantially incomplete. It did not comply with the minimum requirements of 807 KAR 5:001, Sections 6 and 9, for rate applications filed with this Commission. Therefore, a conference was held at the Commission's offices on November 6, 1981, at which members of the Commission staff explained how to prepare the application, the minimum filing requirements which must be met, and the general application format. Subsequent to the conference the Commission issued five Orders requesting information necessary to meet the minimum filing requirements. The information requested was filed

with the Commission as of May 10, 1982. After the necessary information was filed it was determined that Cannonsburg had requested authority to increase its revenue by \$59,917 annually, an increase of 14.5 percent over normalized annual revenue. Based upon the determination herein, Cannonsburg's revenue will increase by \$14,443 annually, an increase of 3.5 percent.

On March 30, 1982, the Commission scheduled a hearing for June 22, 1982, and directed Cannonsburg to provide notice to its customers of the proposed increase and the scheduled hearing. The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky.

COMMENTARY

Cannonsburg is a non-profit water utility engaged in the distribution and sale of water to approximately 1,800 customers in Boyd County, Kentucky. Cannonsburg purchases all of its water from the City of Ashland, Kentucky.

TEST PERIOD

In its original application, Cannonsburg did not propose a test period for determining the reasonableness of the proposed rates. Subsequent to the conference with the Commission staff and the issuance of the Commission's first Order requesting information, Cannonsburg proposed the 10 months ending October 31, 1981, as its test period. This proposal did not comply with the Commission's minimum filing requirements and accordingly was not accepted by the Commission. In response to the Commission's second Order requesting information Cannonsburg proposed and the

Commission has accepted the 12-month period ending December 31, 1981, as the test period for determining the reasonableness of the proposed rates. In utilizing the historic test period, the Commission has given full consideration to appropriate known and measurable changes.

REVENUES AND EXPENSES

Cannonsburg did not propose any adjustments to revenues or expenses for rate-making purposes. While it is the policy of the Commission to recognize changes and adjustments that affect a utility's cost of service, it is the responsibility of the utility to identify those changes and propose any subsequent adjustments. However, the Commission has made a limited number of adjustments that are in accordance with accepted rate-making procedures as well as the established policies of this Commission. Cannonsburg's test year has been adjusted to reflect the following modifications:

Normalized Revenue

For the test year, Cannonsburg reported sales revenue of \$395,691 and other revenue of \$11,735 from penalties and reconnection fees for total operating revenue of \$407,426. Cannonsburg's revised billing analysis, corrected to adjust for computation errors, showed normalized sales revenue in the amount of \$400,158 in an attempt to reflect a full year's sales at the rates which were approved in Case No. 8115 and became effective July 1, 1981. The revised billing analysis reflected total sales of 209,789,000 gallons or approximately 942,000 gallons less than

reported in Cannonsburg's 1981 annual report filed with this Commission. Cannonsburg's witnesses admitted that errors may have been made in preparing the billing analysis. After modifying the revised billing analysis to include additional sales based on the average consumption pattern at basic service rates the Commission has determined Cannonsburg's normalized sales revenue to be \$402,780, which results in an adjustment to actual test year revenue of \$7,089. Taking into consideration the quality of Cannonsburg's revised billing analysis, the Commission concludes that such an adjustment is reasonably accurate and, in this instance, is appropriate for rate-making purposes.

Commissioners' Compensation

Cannonsburg's commissioners each receive annual fees of \$1,800 as compensation for their services. In addition, Cannonsburg contributes \$1,400 for each commissioner to its deferred compensation plan. In our opinion, the commissioners' fees are not unreasonable, although they are higher than the fees for commissioners of most other similar water districts within our jurisdiction. The Commission is of the opinion and finds the additional expenditure of \$4,200 for the three commissioners' deferred compensation to be unreasonable and excessive for the services provided by the commissioners. Therefore, the Commission has reduced Cannonsburg's operating expenses by \$4,200 for rate-making purposes to eliminate the contributions for the commissioners' deferred compensation.

Uniform Service

During the test year Cannonsburg incurred \$1,426 in operating expenses for the maintenance of employee uniforms.

Cannonsburg's manager, Mr. Bruce Van Horn, testified that the use and maintenance of uniforms was necessary in order to comply with the requirement of this Commission that any utility employee entering a customer's premises shall be able to identify himself as an employee of the utility.^{1/} The regulation allows several methods of identification including the wearing of uniforms; however, the use of badges or identification cards that can be carried by the employee is also allowed as a method of identification. The Commission is of the opinion that for a small, non-profit water utility the cost of uniform maintenance is not required in order to adequately render service to its customers. Therefore, for rate-making purposes, the Commission has reduced Cannonsburg's operating expenses by \$1,426.

Goodwill Advertising

Cannonsburg spent \$60 during the test year for institutional goodwill advertising. In accordance with the provisions of 807 KAR 5:016 the Commission has reduced operating expenses by \$60 to eliminate this cost for rate-making purposes.

Outside Services

As stated on page 2 of this Order, after the conference with the Commission staff, Cannonsburg proposed a 10-month test

^{1/} 807 KAR 5:006, General Rules, Section 14.

period ended October 31, 1981. Cannonsburg incurred a cost of \$1,200 for the preparation of the financial statements for this 10-month period.

There is nothing in the Commission's regulations which indicates a period of 10 months is an acceptable test period for the purpose of setting rates nor did the Commission staff in any way indicate that a 10-month test period was acceptable. The financial statements prepared for the 10-month period ended October 31, 1981, are irrelevant for the purposes of this proceeding, and the cost incurred for their preparation, unnecessary. Therefore, the Commission has adjusted Cannonsburg's test year operating expenses by \$1,200 to eliminate this cost for rate-making purposes.

Depreciation

The Commission has reduced Cannonsburg's test year depreciation expense by \$35,045 to exclude depreciation on contributed property for rate-making purposes. The Commission is of the opinion that Cannonsburg should be allowed to charge rates sufficient to recover all necessary costs incurred in providing service to its customers. It is not the Commission's intention, however, that Cannonsburg charge its customers for costs it has not incurred, as would be the case if depreciation on contributed property were allowed for rate-making purposes. Therefore, Cannonsburg's depreciation has been reduced to \$26,818 to eliminate depreciation on contributed property as a rate-making expense.

Extraordinary Income

The Commission has reduced Cannonsburg's non-operating income by \$6,667 to eliminate for rate-making purposes the gain resulting from a sale of assets during the test year. The Commission is of the opinion that non-operating income such as this is an extraordinary, non-recurring item, and therefore, should not be considered for rate-making purposes.

Interest Expense on Long-term Debt

During the test year Cannonsburg incurred \$51,978 in interest expense on long-term debt. Cannonsburg retired \$9,825 of its outstanding debt during the test year. The Commission has determined Cannonsburg's pro forma interest on long-term debt, based on the year-end level of outstanding debt, to be \$51,378. Therefore, the Commission has reduced Cannonsburg's interest on long-term debt by \$600 for rate-making purposes.

The effect of these adjustments on net income is as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenue	\$ 407,426	\$ 7,089	\$ 414,515
Operating Expenses	420,519	(41,931)	378,588
Operating Income	<u>\$ (13,093)</u>	<u>\$ 49,020</u>	<u>\$ 35,927</u>
Interest on Long-term Debt	51,978	(600)	51,378
Other Income	<u>28,987</u>	<u>(6,667)</u>	<u>22,320</u>
Net Income	<u>\$ (36,084)</u>	<u>\$ 42,953</u>	<u>\$ 6,869</u>

REVENUE REQUIREMENTS

Cannonsburg's annual debt service requirement based on outstanding long-term debt at the end of the test year is \$60,575.

Using the results from the adjusted test year, Cannonsburg's debt service coverage would be .96. The Commission is of the opinion that this coverage is inadequate and could adversely affect Cannonsburg's financial condition. Therefore, additional revenue of \$14,443 is required to increase the debt service coverage to a reasonable level of 1.2. This additional revenue will provide net income of \$21,312 which will be sufficient to allow Cannonsburg to pay its operating expenses, meet its debt service requirements and maintain an adequate surplus.

RATE DESIGN

The rate design used by Cannonsburg is declining block. The rate schedule consists of six consumption rate blocks, including an initial or minimum bill rate with a usage allowance of 2,000 gallons.

The Commission has considered Cannonsburg's rate design and concludes that the number of rate blocks should be reduced. This would simplify Cannonsburg's rate schedule, facilitate customer billing, and ease upward rate pressure. In addition, the Commission concludes that it may be advisable for Cannonsburg to distinguish between industrial and general service customers for rate purposes. However, the Commission has not been presented with evidence sufficient to alter rate design in this case.

Cannonsburg proposed to increase consumption block rates by percentages ranging from 17 percent to 67 percent. However, Cannonsburg did not produce evidence to support changing existing rate relationships. Therefore, the Commission will maintain

existing rate relationships and apply a consistent increase to each consumption rate block.

Cannonsburg also proposed to increase its basic meter connection charge from \$225 to \$300 plus a surcharge of \$50 for road crossing. The Commission has consistently denied road crossing surcharges and will not authorize one in this case. However, since cost information furnished in the case shows an average basic meter connection expense greater than the proposed rate, the Commission will authorize a slightly higher charge.

At the hearing in this case, Cannonsburg contended that rates previously authorized by the Commission failed to fully recover expenses associated with the purchase and supply of water. The cost of purchased water to Cannonsburg is \$.58 per 1,000 gallons. The Commission has not in the past and will not in this case authorize a consumption rate below \$.58 per 1,000-gallon level. Indeed, the Commission's review of the revised billing analysis furnished in the case shows that no customer category receives a subsidy on purchased water expense. Furthermore, other operating expenses are fully considered and recovered through rates authorized by the Commission.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are the fair, just and reasonable rates for Cannonsburg and will produce gross annual revenue

sufficient to pay its operating expenses, service its debt, and provide a reasonable surplus for equity growth.

2. The rates proposed by Cannonsburg would produce revenue in excess of that found to be reasonable herein and therefore should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by Cannonsburg on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Cannonsburg be and they hereby are denied.

IT IS FURTHER ORDERED that within 30 days from the date of this Order Cannonsburg shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 12th day of August, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Votz
Chairman

Katherine Randall
Vice Chairman

Len Canine
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8369
DATED AUGUST 12, 1982

The following schedule of rates is hereby prescribed
for the customers served by the Cannonsburg Water District.
All other rates and charges not mentioned specifically herein
shall remain the same as those in effect prior to the date of
this Order.

Water Service

5/8" Meter Service*

Monthly Rate

First 2,000 gallons
Next 3,000 gallons
Next 15,000 gallons
Next 30,000 gallons
Next 50,000 gallons
Over 100,000 gallons

\$ 9.00 (Minimum Bill)
2.14 per 1,000 gallons
1.64 per 1,000 gallons
1.34 per 1,000 gallons
1.14 per 1,000 gallons
.69 per 1,000 gallons

1" Meter Service*

First 2,000 gallons
Next 3,000 gallons
Next 15,000 gallons
Next 30,000 gallons
Next 50,000 gallons
Over 100,000 gallons

\$12.00 (Minimum Bill)
2.14 per 1,000 gallons
1.64 per 1,000 gallons
1.34 per 1,000 gallons
1.14 per 1,000 gallons
.69 per 1,000 gallons

1 1/2" Meter Service*

First 2,000 gallons
Next 3,000 gallons
Next 15,000 gallons
Next 30,000 gallons
Next 50,000 gallons
Over 100,000 gallons

\$14.00 (Minimum Bill)
2.14 per 1,000 gallons
1.64 per 1,000 gallons
1.34 per 1,000 gallons
1.14 per 1,000 gallons
.69 per 1,000 gallons

2" Meter Service*

First 2,000 gallons
Next 3,000 gallons
Next 15,000 gallons
Next 30,000 gallons
Next 50,000 gallons
Over 100,000 gallons

Monthly Rate

\$ 17.00 (Minimum Bill)
2.14 per 1,000 gallons
1.64 per 1,000 gallons
1.34 per 1,000 gallons
1.14 per 1,000 gallons
.69 per 1,000 gallons

3" Meter Service*

First 2,000 gallons
Next 3,000 gallons
Next 15,000 gallons
Next 30,000 gallons
Next 50,000 gallons
Over 100,000 gallons

\$ 30.00 (Minimum Bill)
2.14 per 1,000 gallons
1.64 per 1,000 gallons
1.34 per 1,000 gallons
1.14 per 1,000 gallons
.69 per 1,000 gallons

4" Meter Service*

First 2,000 gallons
Next 3,000 gallons
Next 15,000 gallons
Next 30,000 gallons
Next 50,000 gallons
Over 100,000 gallons

\$ 40.00 (Minimum Bill)
2.14 per 1,000 gallons
1.64 per 1,000 gallons
1.34 per 1,000 gallons
1.14 per 1,000 gallons
.69 per 1,000 gallons

6" Meter Service*

First 2,000 gallons
Next 3,000 gallons
Next 15,000 gallons
Next 30,000 gallons
Next 50,000 gallons
Over 100,000 gallons

\$ 60.00 (Minimum Bill)
2.14 per 1,000 gallons
1.64 per 1,000 gallons
1.34 per 1,000 gallons
1.14 per 1,000 gallons
.69 per 1,000 gallons

8" Meter Service*

First 2,000 gallons
Next 3,000 gallons
Next 15,000 gallons
Next 30,000 gallons
Next 50,000 gallons
Over 100,000 gallons

\$ 75.00 (Minimum Bill)
2.14 per 1,000 gallons
1.64 per 1,000 gallons
1.34 per 1,000 gallons
1.14 per 1,000 gallons
.69 per 1,000 gallons

10" Meter Service*

First 2,000 gallons
Next 3,000 gallons
Next 15,000 gallons
Next 30,000 gallons
Next 50,000 gallons
Over 100,000 gallons

\$100.00 (Minimum Bill)
2.14 per 1,000 gallons
1.64 per 1,000 gallons
1.34 per 1,000 gallons
1.14 per 1,000 gallons
.69 per 1,000 gallons

12" Meter Service*

Monthly Rate

First	2,000	gallons	\$200.00 (Minimum Bill)
Next	3,000	gallons	2.14 per 1,000 gallons
Next	15,000	gallons	1.64 per 1,000 gallons
Next	30,000	gallons	1.34 per 1,000 gallons
Next	50,000	gallons	1.14 per 1,000 gallons
Over	100,000	gallons	.69 per 1,000 gallons

*Meters shall be read and customers shall be billed to the closest 100 gallons of usage per month.

Meter Connection

Non-Recurring
Charge

5/8" x 3/4" Connection

\$340.00